Minority Report from the Task Force to Consider a Meals Tax Referendum

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Summary

The Fairfax County Taxpayers Alliance appreciated the opportunity to participate in the Meals Tax Task Force. However, the Task Force majority report overlooks the dominant role of employee compensation in past and future tax increases and instead implies that tax increases are primarily caused by population and school enrollment growth. Even with a meals tax, annual raises for employees and the rising cost of health insurance and pensions will still drive large increases in real estate taxes or cuts in services.

A Fairfax County Police Department Pay and Benefits Committee report to the Task Force presented the case for higher compensation and taxes. The Police Department is understaffed by 92 positions. It is alarming that out of several thousand applications, the department found only 25 qualified recruits.

Discussion

Between the start of the housing bubble in 2000 and the 2015 budget, real estate taxes for the typical Fairfax County homeowner will have increased from about $2400 to $5500. This is a 130 percent increase compared to inflation, which was 48 percent. Homeowners had an average five percent real estate tax hike in FY2014 and will have a seven percent hike in FY2015. Taxpayers are leaving Fairfax County. According to HowMoneyWalks.com, the total Adjusted Gross Income of Fairfax County taxpayers decreased by $6 billion since 2000. Also the county reports that between 2000 and 2012 persons living below the poverty level in Fairfax County increased 49 percent, from 43,396 to 64,600.

Seventy-five percent of tax increases were for employee compensation, not program growth. According to an Oct. 24, 2013, Fairfax County Public Schools (FCPS) spreadsheet, 79 percent of school spending increases between FY1999 and FY2014 were for employee raises -- step increases and Cost of Living Adjustments (COLAs) -- and benefits. Only 21 percent of spending increases were for increased enrollment and services. A June 5, 2014, spreadsheet from county government shows that 73 percent of county spending increases over the same period were for raises and benefits; only 27 percent of spending increases were for population growth or expanded services.

County and school employees get bigger raises and better benefits than private-sector taxpayers. FCPS states that between 2000 and 2014, the average annual raise for all school employees was 4.6 percent. County government states that between 2000 and 2015 the average annual raise was 5.23 percent for Fire and Rescue, 4.19 percent for Police, 3.94 percent for Sheriffs, and 3.83 percent for non-uniformed employees. School and county employees have zero-deductible in-network health insurance and pensions allowing retirement at age 55 with 75 percent of salary.

In the private sector a four percent raise would be given to a handful of top-performing employees. The private sector is moving to high-deductible health insurance and 401Ks instead of pensions.

Fully funding employee step increases and COLAs plus the increasing costs of health insurance and pensions costs from $150 million to over $200 million per year. County and school employees expect annual raises of about 4.5 percent. COLAs or Market Scale Adjustments (MSA) are to offset inflation, which averaged 2.8 percent between 2000 and 2014. Step increases are two percent or higher. Task Force data states that school step increases cost $41 million, a school two percent MSA costs $40 million, a county two percent MSA costs $22 million, uniformed step increases $9 million, and a two percent average performance increase for non-uniformed employees $13 million. So annual school and county raises cost about $125 million. The FY2015 FCPS pension increase is $40 million and the health insurance increase is $24 million. Over the past few years the county's annual increase for benefits has ranged from $13 million to $30 million.

A four percent meals tax raises $90 million per year. Therefore a meals tax would only pay for part of one year's compensation increase for school and county employees. In subsequent years raises would have to come from real estate taxes or service cuts.

The county reports 232,358 resumes for 1,016 job openings for FY2013. FCPS last reported 30,000 resumes for 1,000 job openings. In a slow economy there are few employees leaving for higher salaries, and there are plenty of applicants to replace them.

Most applicants are unqualified. While school and county officials have hinted that most applicants are unqualified, the police Pay and Benefits report makes it explicit. Out of thousands of applications, the Police Department polygraphed 427 applicants. Only 25 of the 427 applicants passed. The report does not give the reasons why so many applicants failed the polygraph. Nevertheless the large number of unqualified applicants calls into question our societal approach for education and teaching values.

Only 29 percent of Fairfax County police officers live in Fairfax County. School advocates have also stated that new teachers cannot afford to live in the county. However, the same can be said of new private-sector employees. The county affordable housing program apparently does not come close to meeting this need.

Conclusions

Fully funding annual compensation increases is unsustainable. Task Force data states that the inflation-adjusted Fairfax County median household income is nearly unchanged since 1991. Taxpayers will continue their exodus if annual tax hikes continue to exceed inflation. Diverting another $90 million from the private sector to government employees might jeopardize 1800 $50,000 private sector jobs. If jobs disappear, there will be more poverty and more demand for government services.

There should not be a meals tax referendum. Instead compensation and taxes should be cut to attract jobs and reduce poverty and the demand for government services. Retirement age and health insurance deductibles should be increased and annual raises reduced or frozen. Raises should not be granted in years when there are large spending increases for benefits. Employees, not taxpayers, should pay for health insurance and retirement increases.

The education system is broken. Only 54 percent of FCPS seniors and only 18 percent of FCPS African-American seniors are prepared for college (ACT results). FCPS minority student achievement has not improved in 25 years. Having schools accountable to district, state, and federal administrators does not work. Schools need to be accountable to parents. Make all public schools charter schools and let each school's staff decide curriculum and policy and compete for students.

Higher density residential zoning is needed. However, unlike the current Residential Studio Unit (RSU) proposal, there should be no rent controls and it should not be countywide. Also, Virginia's eviction laws penalize the landlord, thereby suppressing the supply of rental property. Increasing zoning density is a volatile subject but addressing it would benefit both public and private employees and is necessary to resolve an important argument for higher compensation and taxes.